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12
13 **UNITED STATES DISTRICT COURT**

14 **CENTRAL DISTRICT OF CALIFORNIA**

15 UNITED STATES OF AMERICA,

16 Plaintiff,

17 v.

18
19 OLYMPIA HEALTH CARE LLC,
ALECTO HEALTHCARE SERVICES,
20 LLC, MPT OF LOS ANGELES, L.P.,
MPT OF OLYMPIA, LLC, MPT
21 OPERATING PARTNERSHIP, L.P.,
MEDICAL PROPERTIES TRUST,
22 INC., SHERMAN/GRAYSON
HOSPITAL, LLC, ALECTO
23 HEALTHCARE SERVICES
SHERMAN, LLC, LAXMAN REDDY,
24 MATTHEW WILLIAMS, and
25 JEREMY REDIN,

26 Defendants.
27
28

Case No. 2:23-cv-01783-ODW-PVC

**JOINT STATUS REPORT
CONCERNING CLAIMS AGAINST
DEFENDANTS OLYMPIA
HEALTH CARE LLC, ALECTO
HEALTHCARE SERVICES LLC,
SHERMAN/GRAYSON HOSPITAL,
LLC, ALECTO HEALTHCARE
SERVICES SHERMAN, LLC,
LAXMAN REDDY, MATTHEW
WILLIAMS, AND JEREMY REDIN**

1 Plaintiff United States of America (“Plaintiff”), Defendants Olympia Health
2 Care LLC, Alecto Healthcare Services Sherman, LLC, Laxman Reddy, Matthew
3 Williams, and Jeremy Redin (collectively the “Alecto Defendants”), by and
4 through their undersigned counsel, submit this joint status report as ordered by the
5 Court (Doc. No. 30) in light of the Alecto Defendants’ insurance coverage dispute
6 and the bankruptcy filings and consequent automatic stay of this litigation against
7 Defendants Sherman/Grayson Hospital, LLC (“Sherman Hospital”) and Alecto
8 Healthcare Services LLC (“Alecto”) (collectively, the “Bankrupt Defendants”).

9 1. As previously reported, on October 20, 2023, Plaintiff dismissed its claims,
10 without prejudice, against Defendants MPT of Los Angeles, L.P., MPT of
11 Olympia, LLC, MPT Operating Partnership, L.P., and Medical Properties Trust,
12 Inc., (Doc. No. 35).

13 2. Plaintiff and the Alecto Defendants (collectively, the “Parties”) reported in
14 prior status reports to the Court, that a continued stay of the litigation was
15 warranted because of (1) the Bankrupt Defendants’ ongoing bankruptcy
16 proceedings, along with (2) the Alecto Defendants’ ongoing dispute with their
17 insurer. Since the November 5, 2024 status report, as detailed below, the
18 bankruptcy court has (1) lifted the stay of litigation as to Sherman Hospital and
19 Alecto solely to allow the United States to file an amended complaint in this Court,
20 and (2) the Parties have been negotiating a stipulation to allow Plaintiff to amend
21 its complaint.

22 3. Regarding the bankruptcies:

23 a. Plaintiff’s claims against the Alecto Defendants are significantly
24 impacted by the Alecto and Sherman Hospital bankruptcies. The Alecto
25 Defendants and the Bankrupt Defendants filed their Answer to the Complaint on
26 May 11, 2023, over a month before Alecto and Sherman Hospital filed separate
27 Chapter 11 bankruptcy petitions on June 16, 2023, and June 23, 2023, respectively,
28 which are pending in two separate cases in the United States Bankruptcy Court for

1 the District of Delaware. While the same judge presides over both bankruptcies,
2 the cases have different U.S. trustees, and Alecto filed as a Subchapter V debtor,
3 while Sherman Hospital is a liquidating Chapter 11 debtor. During its bankruptcy,
4 the assets of Sherman Hospital were sold pursuant to an order of the bankruptcy
5 court and the hospital remains in operation, with a pending motion to settle claims
6 and dismiss the bankruptcy case. Alecto also continues to operate pursuant to its
7 confirmed plan of reorganization, as further described below.

8 b. As previously reported, Sherman Hospital's motion to approve a
9 settlement and dismissal of its Chapter 11 case – which was filed in October 2023
10 and to which multiple objections were filed – remains pending and the Parties
11 cannot predict when Sherman Hospital's bankruptcy will be completed. In the
12 Alecto bankruptcy, its Small Business Debtor's Plan of Reorganization (the
13 "Plan") became effective on April 19, 2024. Under the Plan Alecto will make
14 three years' worth of payments to creditors, to conclude potentially by mid-2027.
15 Based on the Plan, the United States expects that it will receive less than 10% of
16 the amount of its claims in this case. An unsecured creditor's appeal of the order
17 confirming the Plan remains pending, with briefing scheduled to conclude on
18 December 6, 2024. Since the Parties' previous Joint Status Report of August 5,
19 2024 (Doc. No. 42), there have been further developments in the bankruptcies:

20 (1) In the Alecto bankruptcy, the United States and Alecto jointly filed a
21 stipulation on November 13, 2024, to lift the stay of litigation against Alecto solely
22 to allow the United States to amend the claims against it in this Court, which the
23 bankruptcy court approved by order on that same date, and which the Alecto
24 Defendants did not oppose.

25 (2) In the Sherman Hospital bankruptcy, the United States and Sherman
26 Hospital jointly filed a stipulation on October 29, 2024, to lift the stay of litigation
27 against Sherman Hospital solely to allow the United States to amend the claims
28

1 against it in this Court, which the bankruptcy court approved by order on
2 November 13, 2024, and which the Alecto Defendants did not oppose.

3 4. Regarding discovery in this case:

4 a. On June 23, 2023, Plaintiff filed the Parties' first stipulation to extend
5 time for the scheduling conference through September 18, 2023 (Doc. No. 22). On
6 June 26, 2023, the Court entered its Order granting the parties' stipulation for
7 continuance of the scheduling conference (Doc. No. 23). As a result, a scheduling
8 order has not been issued. Plaintiff continues to analyze and evaluate the impact of
9 the bankruptcies on its claims against the Alecto Defendants, including the effect
10 of the automatic stay on Plaintiff's ability to conduct discovery of information in
11 Alecto's custody and control, which necessarily hinders the ability to effectively
12 meet with the Parties' counsel, prepare a report to the court, and prepare for and
13 participate in a scheduling conference in court.

14 b. The Parties agreed that necessary discovery – most importantly from
15 Alecto – could not occur without permission from the bankruptcy court.
16 Specifically, although the individual defendants Laxman Reddy, Matt Williams
17 and Jeremy Redin may have access to Alecto's or Sherman Hospital's documents
18 for conducting business, the bankruptcy stay does not allow production of Alecto's
19 or Sherman Hospital's documents in this litigation before this Court. Additionally,
20 production of documents in the bankruptcies would require the Bankrupt
21 Defendants to incur substantial expense for attorneys and support staff. Those
22 expenses would also require approval by the bankruptcy court, which at this
23 moment cannot be ensured, and which would erode the bankruptcy estate assets of
24 Alecto and/or Sherman Hospital for a potential recovery by Plaintiff.

25 5. Regarding the insurance coverage issues, the Alecto Defendants and the
26 Bankrupt Defendants continue to be involved in ongoing conversations with their
27 insurance companies about potential insurance coverage for certain of Plaintiff's
28 claims. The Parties agree that, optimally, the insurance coverage issues should be

1 resolved before a Rule 16 conference is held or scheduling order is issued. On
2 December 5, 2022, the Alecto Defendants tendered the claims that the United
3 States later asserted in the Complaint against the individual defendants to their
4 primary and excess insurance carriers. With cooperation from the United States,
5 the Alecto Defendants provided a draft complaint to the primary insurance
6 company for its review and consideration on January 22, 2023. Despite follow-up
7 from the Alecto Defendants with their insurance companies, the primary insurance
8 company did not issue a coverage decision until June 15, 2023. The coverage
9 letter denied coverage for the claim under the primary policy and under an excess
10 policy issued by the primary insurance company; the other excess policy follows
11 form and the excess carrier would have presumably followed that coverage
12 decision. The Alecto Defendants disagreed with the primary insurance company's
13 decision to deny coverage under any of the policies and contested the denial.

14 On October 2, 2023, the primary insurance company agreed to withdraw its
15 declination of coverage, but continues to maintain a full reservation of rights
16 pending its ongoing investigation of the claim. Thus, coverage could still
17 ultimately be denied.

18 With the December 2023 filings of the \$29 million CMS proofs of claim in the
19 Alecto and Sherman Hospital bankruptcies, the United States informed counsel for
20 the Alecto Defendants that the additional \$17 million in claims may also be
21 asserted against the individual defendants, and may thus be subject to insurance
22 coverage. The United States is now planning to file an amended complaint in this
23 Court to assert those additional claims, which is no longer prevented by the stays
24 of litigation against the Bankrupt Defendants. The Alecto Defendants have
25 provided notice of the additional \$17 million in claims to its insurance carriers and
26 its insurance carriers are reviewing the notice of additional claims and the potential
27 for coverage under applicable insurance policies.
28

1 The developments could help facilitate a resolution of this matter without
2 further litigation as the Parties explore the possibility for alternative dispute
3 resolution, which could ultimately facilitate a resolution of this matter while
4 respecting judicial economy. Moreover, the insurance policies at issue are eroding
5 policies, meaning insurance money spent on defense costs reduces the amount of
6 money available for potential recovery by Plaintiff. The Parties believe that
7 continuing the stay pending resolution of the bankruptcies and insurance coverage
8 dispute is the most efficient and economical method to resolve this matter at this
9 time, along with the Parties' continuing to file quarterly reports so the Court can
10 evaluate the progress of the bankruptcy and insurance dispute issues relative to the
11 prosecution and needs of this case.

12 6. Plaintiff, however, reserves the right to move to lift the Court's stay of this
13 case and resume litigation if Plaintiff, in its sole discretion, determines that
14 resolution of the bankruptcies or the insurance coverage dispute is no longer in the
15 best interest of the United States.

16 7. This joint status report is made in good faith and not for the purpose of delay
17 or for any other improper purpose.

18 Dated: February 5, 2025

UNITED STATES OF AMERICA

19 By: /s/ Stanton C. McManus

20 Stanton C. McManus

21 Trial Attorney

United States Department of Justice

22 Attorneys for Plaintiff United States
23 of America

24 Dated: February 5, 2025

MICHAEL BEST & FRIEDRICH LLP

25 By: /s/ Evan S. Strassberg

26 (CA Bar No. 219336)

27 Attorneys for Defendants Olympja
28 Health Care LLC, Alecto Healthcare

Services, LLC, Sherman/Grayson
Hospital, LLC, Alecto Healthcare
Services Sherman, LLC, Laxman
Reddy, Matthew Williams, and
Jeremy Redin

ATTESTATION

In accord with Local Civil Rule 5-4.3.4(a)(2)(i), I attest that all other
signatories listed, and on whose behalf this filing is submitted, concur in the
filing's content and have authorized the filing.

Dated: February 5, 2025

UNITED STATES OF AMERICA

By: /s/ Stanton C. McManus

Stanton C. McManus, Trial Attorney
United States Department of Justice
Attorneys for Plaintiff United States
of America